"Titan Company Limited Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22 Earnings Conference Call of Titan Company Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Venkat - MD of Titan Company Limited. Thank you and over to you, sir.

C. K. Venkataraman: Thank you very much. Good evening everyone on the call. It was a very satisfying quarter for Titan Company as the presentation reveals and as usual, we, people of Titan Company, the extended Titan organization from the employees of the subcontractors and Karigars and all the retail store staff, all the sales staff of distributors of sales and distribution organization and of course all the employees came together to deal with the consequences of the second COVID wave and in terms of overall sales performance and margin management and profit performance, it has been a very encouraging quarter. We are very confident about the balance 9 months of the year.

The level of vaccination, I just checked today, we had I think 46 crores people have been vaccinated and in the (+18) age group it is 43% I am told and current rate of vaccination we expect 75% to 80% vaccination by end of September and therefore from an overall safety perception point of view, it is a good sign and it will open up the door to demand and various categories including lifestyle category such as ours and barring any other unforeseen or the consequence that are relating to COVID which is anyway not in our hands. We are pretty upbeat about the balance year and now, I would request Ashok Sonthalia who is here now in the first meeting as the CFO of Titan Company, welcome Ashok, to share some thoughts before we start the Q&A.

Ashok Sonthalia: Thank you Venkat. Good evening and hello to all of you. It is really wonderful to be talking to you. My first meeting as Venkat mentioned. While Venkat gave you some details on our overall performance in the just concluded quarter, I wanted to brief you about some updates on our subsidiaries and on gold hedging approach. You know we had incorporated Titan Commodity Trading Limited and I am very happy to inform you that TCTL has started operating in this quarter and Titan has started hedging its gold through TCTL more briefly. Titan also established 100% subsidiary in USA this quarter to further its business interest particularly of Tanishq Jewellery business in that geography.

Now, coming to our approach to gold hedging while there is no change in Titan's philosophy of not taking any price exposure on the gold that we have, we have made a change which is effective from July 1, 2021. Earlier, we used to hedge cash flow arising out of sale of gold inventory and accounted for it under cash flow hedging methodology with the volatility in cash flow due to sales volatility, due to stores closures, etc., observed during last year as well as this year, there were mismatches in hedges which created ineffectiveness of hedges and created volatility in financial performance on quarter-on-quarter basis. We have now decided to hedge the gold inventory itself instead of cash flow arising out of sale of inventory in future and this shift will minimize and bring in more certainty to our hedging activity and the chances of mismatches in the hedges will get minimized. Gold outstanding contract that are open as on 30th June 2021 would continue to be under cash flow method till their closure and all the new contracts from July 1st are under fair value method. We have included these details on Slide # 36 and 37 of the investor's presentation uploaded on stock exchanges and on our website. So, you can look at them for more details if you could not capture whatever I spoke about.

Last point before we open the floor for question and answer that in view of the stricter regulation on disclosure coming into play, in this call we will not be able to share specific revenue growth number for July while we will be providing you qualitative picture of that, but the specific growth number, we will not be able to provide. So, with that we can open the floor for question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Couple of questions from my side, so in terms of store openings over the next 2-3 years, could you give some idea on what would be the proportion between metro, Tier-1, Tier-2 towns, etc., I mean I am not looking at exact figures, but what I am trying to understand is that the store split of the current stores that you have now, will the store openings be in roughly the same proportion or it is going to be materially skewed towards any particular pop strata?

C. K. Venkataraman: I think the opportunity for Titan Company in Middle India and below is very high. A lot of stores that we have opened in the last 2-3 years are certainly in smaller and smaller towns and we expect that to happen.

Percy Panthaki: So, when you open stores in smaller towns and your overall mix of total store shifts over a period of time, does it have any implications either on your sales per store or on your profit margins?

C. K. Venkataraman: The sales per store obviously is lower in smaller towns and then has to be increased in smaller towns, but it is not as the growth opportunity in large cities is low enough, for example our largest jewellery store which is in Delhi has grown handsomely in the last few years, even when they are opening our store in Ganganagar or Yamunanagar in Haryana for example, so they have a sort of compensating effect and the leverages what we are pushing are supposed to per store sales and the individual store economics in terms of asset turn as well as margin or anyway sort of built into the system through our terms of trade and all that. So, there is no worry sitting there.

Percy Panthaki: Apart from this, for any reason, whatsoever, let us say once the COVID disruption is fully out of the way, your margins for your Jewellery business, I think before COVID for 2 years you had average somewhere in the region of 12.5% EBIT margins for Jewellery, so once the COVID disruption is completely out of the picture, is there any reason why you would not go back to those margin levels in Jewellery?

C. K. Venkataraman: There is no reason why we would not go back to those margin levels.

Moderator: Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: At the outset, I also wanted to congratulate Ashok and good to have you sir on this call, I wanted to take a step back and understand how we are thinking of managing franchisee economics, Titan has of course benefited from the low cost model that we have, but for our franchisees operating leverages worked against them in this pandemic period, given this is there any change in franchisee economics that is needed going forward and last time we also spoke about how we are institutionalizing management of cash and balance sheet within the company beyond the CEO -2 levels, how are we thinking of institutionalizing the same within the franchisees and how do we think of improving inventory turn for the franchisees, I am wondering some of the digital initiatives that we have taken recently would also help them in higher inventory turns for them?

C. K. Venkataraman: Certainly, the leverage advantage that corporation like Titan has an independent businessman does not have and therefore when the sales fell in FY21 and even during FY22 now, there is an impact on the economics and on the financial performance, but fortunately over the years, we have built robust businesses in most of the franchisees and last year as well as to some extent this year we stepped in with loans, grants and sort of helped them buffer the situation and because of the overall cumulative prosperity that they have, Titan brands have delivered to them, it was not an issue. They would sort of take it on their chin and move forward, so therefore we have not had to make any structural change to the terms of trade of business and therefore increase, let us say, our cost of retailing and distribution, so that is the first point. The second one is, actually individual businessmen are quite savvy in the management of cash actually and we don’t really need to teach them. We often find, if I take the Jewellery business for example where we have these two different formats, L2 and L3 which is the buy and sell versus company stock, you also define that the stock turns of the franchisees who own the stock for comparable turnover banks is actually better because they are on the ground managing it and their cost of borrowing is much more than for us on the gold on lease and all, so there is really nothing that we have plans of teaching them as you say, but the principles of stock management for example in the Watches and Wearables division we have taken the whole theory of constraints principle all the way down to all the franchisees, so that it is a flow system where what sales get replenished and how long the sale is considered before it is reordered and stuff like that to manage the asset turn and in Jewellery the same principles of what we use in the consignment L2 management agent, we have now created a team in head office for the franchisee L3 to help transfer all these best processes to them as well.

Chirag Shah: And also can you touch upon the two key growth levers we have, one, we speak about the many India program to increase the state level relevance and just on the second part, the golden harvest scheme, enrollments in FY20 have been uneven for obvious reasons and that would understandably result in some volatility in revenues in the current year, but can you just give us a sense of how enrollments are moving in the current year on the golden harvest scheme?

Ajoy Chawla: Chirag, Ajoy here. Enrolments obviously in the month of May, everything was shut, but June and even later on in July the pickup has been good, so enrollment has kicked in well and it is continuing to ramp up, so hopefully going forward it should be a good base that we will rebuild. In quarter 1, I must certainly share that since last year quarter 1 was a disrupted quarter, therefore enrollments were not there, therefore the opening base of matured accounts were limited. So, to that extent, that engine was understandably lower contributor to sale in quarter 1 but going forward the enrollments look good. On the part about, let us say, trying to win in different parts of the country and Tamil Nadu which has been our strategic market has continued to fire well and we have also done a lot more localized activity in what we call as Bharat market which is really UP, Bihar, Jharkhand, MP, Orissa and that has also been working well this year as well with lot of localized activities. We are also exploring a couple of more markets in the current year, but we are waiting for things to stabilize and see if the momentum is right for us to intervene in those markets going forward, but overall that approach what we kind of crystallized a lot more last year, we are continuing with that, state level kind of customized plan, but it is going on well and it has really helped us a lot in the states where we have done a lot of this work.

Chirag Shah: And just one last question if I may, in the annual report, if you see while the golden harvest fixed deposit which is held as a reserve, the proportion of golden harvest related liability has gone up materially, just wondering if that has to do with any regulatory change that has happened?

Ashok Sonthalia: As per rules, 20%, but I can look at your specific number, that shown the thing...

Chirag Shah: That number is for FY21, that number has gone up to 28% which is why I am asking this question?

Ashok Sonthalia: I will get back to you after checking that.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I just had two questions, just taking up in the demand recovery, trying to get a sense, Venkat, would you say that gold jewellery would come back as customers have not been able to purchase due to the shops being closed, is that what you would expect as we go forward into the year? Is that the reason for your relative bullishness and if it is, would you be able to share any guidance on the sales for the 9 months as we go forward?

Ajoy Chawla: Ajoy here. Yes, there has been, we have seen certain what I would call as pent-up demand on account of gold jewellery, even studded jewellery on account of missed milestones in the period of lockdown as well as, let us say, typically people wanting to buy during Akshaya Tritiya were not able to buy, so we have seen evidence of that in June and it has continued in July. How the rest of the quarter will look like, it is kind of difficult to give a guidance, but given what we are seeing, we are also seeing a good, at least for us we are seeing a lot of new customers also walk in and the contribution of new customers as well as the absolute growth that we are seeing in new customers is also giving us lot of confidence and the third piece which I would like to share here is, these milestone they have talked about birthdays and anniversaries, this is now becoming a growing trend for us. One is of course a spike that you see immediately after unlocking, but I think as a process we have become little better at managing that, so that is amongst the repeat customers is also growing up. So, I think we have more than just the pent-up demand as a basis and there are wedding demands which anyway people are advancing their purchases because they don't know when Wave-3 may come, if it comes, etc., so these are some of the demand drivers.

Avi Mehta: No guidance on recovery, by when or nothing like that, right, you would not be comfortable, that is the understanding?

C. K. Venkataraman: Yes, not on this call.

Avi Mehta: And sir, secondly on the margin front, I mean if they were, in the last call, you had highlighted towards some discounting pressures from other peers, is that now behind us? Is that a fair understanding?

Ajoy Chawla: See, discounting has always been there, last year, this year and nowhere have we actually slipped on margin on account of that piece, I mean competitive intensity continues to be high, post unlocking most players in the market have been on aggressive offers, but we followed whatever we think was right to do and we followed us steadily. It is okay, I mean that will continue.

C. K. Venkataraman: It is on operating aspect of the industry.

Avi Mehta: And lastly sir, just a book keeping on the change in hedging, does this in a way is required to increase the number of hedges that we keep on book? I mean would that be a right understanding or that was not correct?

Ashok Sonthalia: No, I don't think that is the right understanding because it is just, I will again repeat that instead of the inventory which was exposed to price risk and we were hedging the cash flow in futures out of that inventory, now we are hedging inventory itself. So, it basically brings in more certainty that what hedges we are doing and tagging to the exposed inventory which is for price. You know we kind of bring in through GOL which are naturally hedged inventory, so that proportion is we are not foreseeing meaningful change. If that proportion change, then in any case, we have to hedge the remaining inventory. So, again, this is operating and very tactical month to month, week to week, quarter to quarter, but this system doesn't bring in any structural change into amount of hedges need to be taken.

Avi Mehta: So, it is just an accounting, got it sir, clear, so that unhedged and ineffective hedges is now behind us, that is a takeaway.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on TCL North America, so 12 years back you had exited USA, so want to understand what has changed and if you could discuss any numbers here in terms of investment or losses, is there any learning from CaratLane International Business which has increased 9x Y-o-Y, is that giving more confidence, because the US market in 11 years would have become much more competitive now, so if nothing worked then you had highlighted that you want to focus on India and US the market is much higher, so if you could discuss these points?

C. K. Venkataraman: For various reasons which were valid in 2006-2007, we decided to target the mainstream American consumer with Tanishq and we went into malls, we created a product line which was totally American Global in terms of styling, took an unknown brand into the American market, at that time we felt that we could make the success because the proposition that we had was differentiated and we felt that there was a decent space in the American market for that. There was a decent space, everybody who came into the Tanishq Store loved the entire value proposition that we had put together from product designs, to range, to quality, to the customer experience, to the store design and all that and we had very good customer feedback, but the biggest challenge that we had not visualized that well was the investments that we needed to make into generate the walk-in, build the brand and generate traffic into the stores and even as we were starting to grapple with it, the global financial crisis struck and we realized that it is going to be a long haul and many tens of crores would have to be sort of lost before we saw light and Titan Company was in a very different situation in 2008. So, that was the reason for closure at that time. Now, the incorporation that we are referring to is for making a serious play in the NRI/PIO market of North America and in just in 10 years, there has been, even at that time, the NRI/PIO market was large, I won't go into the reasons why we choose not to go there then, but I am telling you why we are choosing to go there now. The per capita GDP of the NRI/PIO is 100,000 USD in a country which is $65,000 and the NRI/PIOs are more Indian than Indians living in India and their connection with the culture of India, the festivals of India, even the functions, the marriages were celebrated with pomp, the Holi and Diwali and all that. There is a lot of socializing that happens and we ourselves know in India the NRI traffic during December months really peaks. So, we are now playing in a very different category which is pretty large. Our sense is that it may be $3-4 billion at least and the market is pretty unorganized and we believe that we can hit the ground running, we can get very decent ticket sizes, very good diamond jewellery share and also a lot of prestige by upping the game in terms of style quotient, so all in all, the game that we are going to play now is very different. The Tanishq brand is very strong in the NRI/PIO consciousness, we have done a fair amount of research to make sure that when we go in, people are waiting there to welcome us just like that it has happened in Dubai after many years. Therefore, the market opportunity is very different, the strategy is very different, the competitive advantage is something else compared to unknown brand fighting big global brands at that time, huge desirable brand fighting mostly local players this time. That is a big difference.

Abneesh Roy: My second question is on closure of stores, so you have closed 5 of stores in different formats, one Mia, two WOT, and two in Fastrack, so if you could discuss the reasons and is this because more focused on digital or online you want to drive?

C. K. Venkataraman: Abnessh, we have 1800 stores plus,. We can't help, not close some of them every year, I mean it is like that. It is just a regeneration of the system. Nothing particular to note. It is not a material number from a network size point of view.

Abneesh Roy: Last quick one, you have pointed that in Jewellery last year you saw quick turnaround, quick footfall recovery and you have said this time, even in watch you have seen that and Eyewear, so what is driving this, so essentially is it more of base effect or there is a faster sentiment in core?

Suparna Mitra: This is Suparna here, yes, I think consumer sentiment has been faster to recover and we see that across all channels in the watches division, whether it is multi-brand outlets or the large format stores and certainly in our retail stores, consumers have come back faster and that is at an overall level. It took longer for people to come back to buying after the COVID wave last year, this year has been much better.

C. K. Venkataraman: And Abneesh, last year there was no vaccine, this year there is a vaccine. I was in Punjab last week and so many people on the road, so many people in the famous restaurant called Haveli, so the fear of COVID even though the tragedy of COVID was greater this year, but the fear of COVID is much less because the vaccine is the protection shield and that is what I am sure is affecting or influencing recovery across categories.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question is, as the mandatory hallmarking effective from June what has been the experience over the last 25-50 days, how strictly are the rules being followed in the large cities or small cities and what are the benefits you expect in the near to medium term?

Ajoy Chawla: So, hallmarking is mandated yes, we have been compliant right from day 1 across all our stores whichever city it is. There is some amount of disruption in the supply chain in terms of post production because there is a new system of in a way capturing the hallmarking UID number through some centralized system that is resulting in some significant bottlenecks which BIS is trying to address. So, that is the main impact currently of hallmarking. Meanwhile, jewellery associations continue to kind of lobby for a certain deferment, delay, etc. We are carrying on the way it is and we have expanded our operations suitably to cover up for these delays. Now, the benefit for us, well I think HUID is a good move because it will really bring transparency and some credibility to the hallmarking piece. So, tomorrow as a customer if you are able to use that number and check where it was hallmarked, etc., it gives a certain, so you will prevent any contamination in the hallmarking process and BIS also seems to be pretty clear that they are going around checking the quality of hallmarking and all of that in the initial months and weeks, so that there is no hanky-panky. So, we think this will be good for formal organized players who are operating on clear purity, etc., and eventually, I think the entire industry will kind of get into that mode and it is good for the customer, it is good for the industry, it is good for all of us. So, it will be beneficial.

Kunal Vora: Second question, regarding CaratLane, what is the store count potential for this brand and would it really focus on jewellery alone or would you consider extending it to other luxury products?

C. K. Venkataraman: We have Mithun here who is the Managing Director of CaratLane. It will be wonderful to hear him share his thoughts.

Mithun Sacheti: Could you, the first part, you asked me the current store count?

Kunal Vora: Store count potential, like where do you think, like what could be the potential store count for this brand?

Mithun Sacheti: Yes, so if you consider that the stores are roughly about 1000 square feet and we are currently in only 44 towns with depth in about 16 towns only. You could put any multiplier to that and we would find a lot of potential if we look at just India alone. Beyond that, the second question that you had was around, sorry, could you repeat the second one?

Kunal Vora: I just was wondering whether this brand can be extended to other luxury product, but right now you are doing Jewellery but can you extend it to other luxury products as well?

Mithun Sacheti: It could be but hasn’t crossed our mind yet.

C. K. Venkataraman: Thank you for bringing into our notice.

Kunal Vora: And like one last question, if I can, like, through FY22, how do you look at Jewellery and Watches business revenue compared to FY20? Would you say that like for Jewellery 15% kind of CAGR over FY20 is possible or is it too ambitious? Also, in Watches if you can share, when do you expect to get to FY20 level of sales?

C. K. Venkataraman: Actually, we had reached FY20 level of sale in Q4 of FY21 and then we were gunning for a good growth in all the businesses in FY22 till wave 2 came. I think in the 9 months, we should be gunning for certainly matching and exceeding is what we would gun for, plus do not take it as a guidance.

Kunal Vora: Are you saying that you can do a good CAGR, double digit CAGR or you are saying that FY20 number can be matched?

C. K. Venkataraman: No, because last year was a drop, CAGR, it would be just a point-to-point growth.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan Sambamoorthy: Venkat, last year particularly the second half, you saw a significant punching up of wedding demand, also benefits of things like lack of overseas travel, therefore putting greater income in the hands of the customers, you expect something similar in the current year as well?

C. K. Venkataraman: The overseas travel part, whatever we are sensing is still a big concern while the people's moods have improved vaccines and all that, but the government continue to be strict about visa and therefore, for example, even for our own launches, stores in Dubai and US and all that we are not able to step out of this country, so I suspect that advantage will remain for a while. Wedding, I am not clear, may be Ajoy can speak.

Ajoy Chawla: Yes, I think wedding demand will be stronger in the second half, it is already there because people are advancing their purchases, not knowing when Wave-3 will hit and therefore caring on with it but having said that certainly like last year we think wedding demand will be stronger in the second half because people have missed out in the first quarter.

Krishnan Sambamoorthy: The second part, while Ashok did highlight that he don't want to give July numbers and so on, could you share the store operating list data similar to what do you have given for April, May and June?

Ajoy Chawla: Sorry, what data?

Krishnan Sambamoorthy: Store operating data?

Ajoy Chawla: It is about 80-90% for Jewellery and it is around mid-80% kind of number.

Suparna Mitra: For Watches it is between 75 and 80 because of the malls and there are lots of stakes where there are alternate days and so it is certainly much below 80.

Ajoy Chawla: CaratLane, Mithun says it is 88%.

C. K. Venkataraman: Also, I think that, also because the public is now starting to become reasonably well aware of this, the sales must be getting distributed over the days in which stores are open. So, you may not be able to use this frankly beyond the point for any practical calculation.

Ajoy Chawla: Yes, I would strongly suggest not to use that data because the correlation is not standing out. What Venkat said is gone out by data, so we should look at total month sale only.

Krishnan Sambamoorthy: Just one final question, Ashok, can you explain what is the role that Titan Commodity Trading Limited, what does it play in the hedging process?

Ashok Sonthalia: It is a registered broker with MCX in a way and earlier if you remember, we used to deal with other brokers including Karvy and we had bad experience there, some of our money got stuck and just to avoid that risk, we created our own entity. Titan is a sizable player as far as gold bullion hedging is concerned, so apart from avoiding that risk, of course we are saving some more brokerages, BG charges etc., but those are small amount. That was not the motivation, motivation was to avoid the risk of a counter party in this kind of transactions.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: I just wanted to Ashokji or Ajoy if I can get some clarity on Jewellery margin, I remember last quarter, there was one-off expenses or at least write off on account of the custom duty reduction that had already happened and impacted quite sizable amount in Q4 and if I remember correctly, Subbu had said that part of it would be also affecting this quarter and if I were to say two third, one third, I just wanted to know that what kind of custom duty impact would have still hit in this quarter and can you quantify that in terms of EBIT impact?

Ajoy Chawla: I will take that Amit. So, we were actually expecting to observe a much larger component of custom duty impact in quarter 1, but because sales itself are much lower that amount is also much lower. Coincidentally, some of that loss has got set-off by what we call as a FIFO gain which is on account of gold rate valuation. So, actually, in this quarter, those two amounts are cancelling each other out, so you are not seeing any impact of that and they happened to be pretty much the same number, give or take a crore here and there.

Ashok Sonthalia: But just to add to Ajoy, there will be something going into quarter 2 now, but now amount is not significant where we call out is specifically what that amount is, but some carry forward to quarter 2 will happen.

Amit Sachdeva: But that would be I would guess would be marginal and not really very meaningful which actually the EBIT margin level, would it be safer assumption?

Ashok Sonthalia: It should not be very meaningful, but we will kind of…

C. K. Venkataraman: It will be meaningful, but it is not material.

Ashok Sonthalia: Not material, yes.

Amit Sachdeva: My second question is, obviously you have talked about demand and the fact that you would not be very specific about July, but I would also gather the July month is split into two halves and first half July typically is a very bland and very lackluster anyway structurally and cyclically and it is only the second half of July that takes off, so my question is and also there is a growth factor of metro demand and Tier-2, Tier-3 demand which has been divergent at least last year and I would guess Q4 where metro demand would have come back as well, but could you give us some picture of how the July has progressed on first half, second half dynamics and second, Tier-2, Tier-3 or smaller town versus metro dynamic and are you seeing this trend sustaining, some color would be really helpful, Ajoy?

Ajoy Chawla: So, actually, this time around, first half was much better than the usual, because there were still quite a few wedding days available till 17th of July or so and then after that the Aadi or Ashadha month started, so demand actually slowed down, so the first half was quite good for wedding and therefore also more for plain gold. We actually advanced in the North market for example, studded activation which we usually do towards the end of July and then it was on all the way to mid-September. This time, because of momentum as well as uncertainty of Wave-3 in the North markets we have advanced it by about a week and therefore we saw good opening traction to that and then the rest of the markets followed in the last few days of July and that has also seen a good response on the studded activation. To give you a sense on metro and Tier-2, Tier-3, this time around because Bombay, Delhi and some of the other North and West markets have been good, Ahmedabad, I think we are seeing a better response this year because some of these markets were badly impacted last year. Tier 2, Tier-3 towns are certainly recovering also pretty well, but the metros and the mini metros have started punching their weight a little earlier this year than last year. Therefore, most markets are firing well, barring a few states which are still impacted, 3 or 4 states which are impacted.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: I have three questions, the first question is on the jewellery part, if you could talk about the mix, how this has fared in this quarter, may be that would be very helpful?

Ajoy Chawla: So, the studded mix, I guess that is what you are referring to, in the quarter, we have seen on retail, I am just giving you the retail flavor because on primary sales etc., it is a little different, but on retail I will give you a sense, it is 25% has been the studded mix in this quarter. This compares to 21% last year which was impacted quite a bit and the year before last it was at around 28%. So, the studded recovery is better than last year, but yet to catch up at least for quarter 1 figures.

Shirish Pardeshi: This is because you have advanced the designs in the Northern market?

Ajoy Chawla: No, that is in July, this is referring to quarter 1, so there is no impact of any activation in quarter 1.

Shirish Pardeshi: My second question is on watches, when I see the Slide #47 and 48, I think you have reported a very strong volume growth, so maybe if you can help what is the volume absolute quantity in the quarter and this related question on that is that despite higher volume growth, the EBIT is not showing that momentum, so could you talk something about the mix, how, which segment has done better or lower?

Suparna Mitra: This is Suparna here. The volume growth is actually on a very dismal quarter 1 last year where we had very low sales like I mentioned earlier, last year the watches, consumer sentiment is very weak and the recovery was very slow, so I think the 466% should not be seen in any other context except that the base was terribly low, can you just repeat the second question?

Shirish Pardeshi: What does it explain the lower growth in EBIT?

Suparna Mitra: The EBIT is actually last year, we had a loss of 164 crores in quarter 1, this year we have had a loss of 56 crores and it is largely, to a very large extent explained by a much better topline performance this year in quarter 1 as supposed to last year. So, that is the difference in the EBIT.

Shirish Pardeshi: Suparna, just one follow-up on watches, what is the Wearable contribution now in this quarter 1 or may be if you can talk about last 2-3 quarters, how it should be?

Suparna Mitra: The Wearable contribution is still less than 5% in the overall value, but it is growing year-on-year. The growth in Wearables is higher than the growth in watches, even the recovery on Wearables so far has been better than in watches. But it's on a very small base.

Shirish Pardeshi: My last question is to Ajoy, while speaking to a few of the channel partners across geography, what we are also seeing and you also acknowledge that the industry participants are pushing the deferment of hallmarking, but how truthful is that, but their thought is that if it is deferred, probably they can sell off the inventory and if that doesn't happen in the extreme situation, we expect, I mean people are saying that there could be a discounting which will happen. There is no need of discounting, but obviously the lower karat gold which is there in the inventory, probably you will see more height in promotion, so in that scenario how do you see the competition behaving normally, abnormally or heightened?

Ajoy Chawla: So, we were also anticipating because of this, in July-August, the two months window given by the ministry to kind of get all your stocks hallmarked or sold, we were expecting a lot more competitive intensity discounting, so it is pretty much the way it has been, I don't see any further, it has not taken it up much more, but I am sure the industry has also seen some good growth in the month of July and we are also hopefully going to see good growth in the month of August, so they should be better. So, in any case, even after that the window doesn't close, you can just go and get your opening stock hallmarked which is what we did in the first place, so that as on 1st July everything was already hallmarked. So, I am not seeing much, in fact the greater, let us say, the greater issue here is, as we build up towards festive season, October-November, everybody is going to start up stocking and, in that period, therefore the entire supply chain is coming under some stress due to this hallmarking HUID process and that bottleneck can actually create greater chaos for the rest of the players and in that sense may be because we are little better prepared for it, we may have some marginal gains.

Shirish Pardeshi: But Ajoy, you don't anticipate that it will take little different tone in around festive season?

Ajoy Chawla: I don't think so, I think the ministry seems to be very confident and clear. Mithun wants to add something to this.

Mithun Sacheti: The government has also plugged that space in by August 15th, it was originally July 30th now it is August 15th, all opening stock either by pieces or by grammage has to be reported into the BIS portal as well and so that doesn't allow for the scenario that we are looking at for it to play out.

Shirish Pardeshi: Thank you for that commentary, but where I am come from just to clarify that there are some glitches, even BIS is also acknowledging in terms of certification and on the ground infrastructure, so may be because of that I am anticipating some kind of super-competitive pressure which can happen?

C. K. Venkataraman: The kind of significant competitors that we play with, they are not the kind that you are describing and surely customers would be wary of, some local jewellery suddenly knocking off the stuff at some 30-45, it will only increase the worries that they already face about such possible brands.

Moderator: Thank you. The next question is from the line of Vishal from Phillip Capital. Please go ahead.

Vishal: Sir, I have two questions, both are book keeping one, share of old exchange gold during this quarter and store opening guidance for Tanishq during FY22?

Ajoy Chawla: So, share of old gold exchange has been a little subdued since the last year, I think people's interest in bullion has not gone away and therefore they have kind of, also because of the curtailed wedding related purchases during this period, the total quantum, we see a lot more exchanged during wedding purchases, we saw a good one in April and then June was not really a great month for wedding related purchases, so to cut a long story short, the gold exchange percentage contribution to sale in quarter one this year was 24% compared to, let us say, 30% if I go to year before last. Last year, I think it is irrelevant. What is the second question you asked?

Vishal: Store opening guidance Tanishq for FY22?

Ajoy Chawla: We are targeting around 34 to 35 store openings and we are pretty much on track for that. We have opened 7 and another 4, so totally we have opened 11 so far as we speak for the current financial year.

Vishal: And sir, most of them would be on L3 kind, it would be franchisee-based store operation, L3 kind of format or L2 kind of format or what kind it would be?

Ajoy Chawla: Yes, most of them are L2, few will be L3 in very small towns.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

Rakesh Jhunjhunwala: Sir, congrats on a fine performance, you have said that you will not give quantification of the July sale, but how has been the change, has the recovery been good?

Ajoy Chawla: Yes, we have been good Rakeshji.

Rakesh Junjhunwala: Another question, what is part of cash you are holding on your books as on 30th June?

Ashok Sonthalia: We have an excess of 2000 crores Rakeshji.

Rakesh Jhunjhunwala: And what about Favre Leuba, it is going on or we closed or it is still be extended?

C. K. Venkataraman: Yes, Favre Leuba, there are some procedural matters on the plate, but for all practical purposes otherwise it is closed. The entity still exists and we have not yet sold the entity so to speak, but no investments ever since we decided to close it other than winding down expenses that we had estimated and running to that plan.

Rakesh Jhunjhunwala: Any effect on the Eyewear division because of the vast quantity of money that the company is raising, I forgot it, online company, it has now got offline stores also. Lenskart, all the money they have raised is amazing. So, is there competitive effects on our Eyewear division?

Saumen Bhaumik: This is Saumen here, Mr. Jhunjhunwala actually the opportunity seems large enough, although they have been able to generate lot of money and their expanding, their business is doing well, our business too actually is doing very well, we have also got a model which is quite sustainable and we are looking at very rapid expansion across both in big cities as well as in the smaller towns, so prospects are very good, we are quite excited with this.

C. K. Venkataraman: Also, Rakesh, if you really think about it and even go to the stores and speak to customers, we are an expert in this business. Now, the name for the division is Eye Care, not Eye Wear so that expertise plays in a particular space of the industry of the category which is very large in any case. The competitors are playing in a way in the fashion space with lot of youth which is a different space. So, to that extent, I think like Saumen says the opportunities are different and equally large.

Rakesh Jhunjhunwala: No, there is no question the way the Eyewear division has been turned around you receive a big pat on the back all of you all, especially, Mr. Saumen**.**

C. K. Venkataraman: You can tell Saumen once again about this appreciation.

Rakesh Jhunjhunwala: It has been a remarkable thing, Titan has been trying for 10-15 years, but they couldn't produce the profit and second, I personally feel this is a very large market with a very big potential. Second thing I want to say is that are we going to continue with all this Taneira where the sale is 14 crores a quarter, I mean does it befit the size of our company after trying for 3 years, 4 years?

C. K. Venkataraman: Of course, we want to make Taneira in the ethnic wear industry what we made with Tanishq in the jewellery industry Rakesh. That is our ambition. We are very clear about what levers of Taneira are working. The women who have got Taneira love Taneira, they have not seen sarees like that anywhere, the scale has been held back also because of the last 18 months of COVID, but we will speak soon at an appropriate occasion about the ambition for Taneira. Without doubt, it is going to go somewhere else. You just wait and watch and you will applaud from the sidelines.

Rakesh Jhunjhunwala: And how is your perfume business doing?

C. K. Venkataraman: Perfume business is doing very well, but at the moment where people are all sitting at home, you and I are the only two people who seem to be going out Rakesh, most people are sitting at home and therefore the need for perfume is a little less, so I think it is just a matter of time, January when all of us, the nation is vaccinated, socializing starts, people also should start working, hybrid working as oppose to just sitting at home and working, that is for some categories like perfumes, but we are very gung-ho about the business.

Rakesh Jhunjhunwala: Any plans to add items to Fastrack?

C. K. Venkataraman: In terms of categories not yet, we want to actually make the Fastrack, for example the perfume business of Fastrack much bigger, the bags business, you may not be aware that we are in the girls, we make very wonderful bags for girls, fashion bags, we want to make that big, not entirely new category, but make much bigger and the basic point you were making that some of these categories are so small in a company of such a large size. You are very right and it is our collective**,** me and three of the heads of those businesses to make these much bigger, much more prestigious, much more profitable from the company's point of view.

Rakesh Jhunjhunwala: Maybe I forget that all things large start small.

C. K. Venkataraman: Yes.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: My question is again on the Eyewear business, if you look at Lenskart, they scaled up from 150 crores to about 900 crore topline in a span of 4 to 5 years and recently they have valued at $2.5 billion, so just want to understand what are the growth aspirations that we have for Titan Eyewear and what are the investments you are making to sort of strengthen the omni-channel play especially on the digital side and we see a lot of thrust from Tata Group on building digital asset, just want to understand what are Titan's plan for Titan Eyewear?

Saumen Bhaumik: In the last 18 months, we have established some of the basic things that were kind of healing us. Having done that, we are getting into a rapid expansion mode, both in the top 7-8 cities as well as the rest of India, so therefore if today our network is at 622, in 2 to 3 years' time, crossing 1000 won't be surprising at all, may be even earlier plus we have also cleaned up our trade channel which is the multi-brand outlets and we are seeing significant scope for actually playing both the things, EBO/MBO combination, so therefore outlook for the business actually could be very strong, meaning our last 5 year position was somewhere around 1800-2000 crores, that has been in the last presentation I have shared, 2 years back I suppose. I do not have a number or anything in mind right now, but I think we feel very strongly about the category given the opportunity that is available as well as the digital exposure people are going for the last 18 months.

Jaykumar Doshi: Is there any gap in product portfolio because when I look at the store count of 750 and topline of 900 crores versus 600 and 500 crore topline, so there may be some B2B component, distribution component, but at a product portfolio level, how do you sort of benchmark yourself?

Saumen Bhaumik: We had certain gaps in the lower end of price point, I think in the last 6 to 8 months, we have more or less filled it and we therefore today don't see any real gap in the portfolio side and of the two brands that we use in the Frame segment which is Titan and Fastrack. Fastrack is also going to scale up the play very soon and significantly so.

Jaykumar Doshi: And one book keeping question on other expenses and the other expenses that you sort of report in the presentation on Slide #40 this time, so this quarter was 240 cores, last year same quarter was 187 crores and March quarter was 400 crores, so I just wanted to understand what is the breakup between variable and fixed cost because it seems to be little bit lower than what I would have otherwise sort of anticipated or expected?

Ashok Sonthalia: Coming to the specifics, last quarter which you are referring to, of course it was a very different quarter completely April was complete closure, May was also most of the time everything was particularly shutdown, so anything which comes under this category whether it is software, whether it is professional services, whether it is some of the rent concessions are also sitting here, traveling zero, so those things were there in Q1 FY21 and that is what the number you see. Of course, this quarter was better off compared to last quarter one situation and that is what you are seeing.

Jaykumar Doshi: Sorry, my question was contribution, sir, from 400 crores in March it has gone down to 240 crores in June, so it is a 40% decline, so, it is a fairly good sort of optimization of cost, but is it because the large part of that is variable or?

Ashok Sonthalia: No, it is not that. It is basically the travel rent savings, professional services which we hire a lot in our factories as well as everywhere. All those things are there, so they are of course curtailed because of closure etc., and war-on-waste sustainable part is of course built in, which was done.

Moderator: Thank you. We take the last question from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: My question is again on hallmarking, 2-3 bits were here, so one on the hallmarking bit, overtime let us say in the medium term, if let us say one of the important USP of Tanishq was or has been around purity, if let us say the neighborhood stores start selling hallmarked gold, wouldn't that change the perception in the minds of customers that from a purity standpoint, whether Tanishq or a neighborhood store, then the battle or the competition is more on the designs, is that a fair assumption?

Ajoy Chawla: You are right, over a period of time that will happen, but we have to compete on design, we have to compete on other practices, for example when you take back gold, exchange gold, etc., but we also think because of this they were currently parking some of their margin from making charges into purity. Over a period of time, they cannot sustain. They will land up having to take up their making charges. So, in a way this would then make our making charges more competitive. So, that is my reading.

C. K. Venkataraman: And Vivek, for the last 3 decades the exchange jewellery caratage has been in the 19.2 karats for Tanishq, now that 2.8 karats is actually what Ajoy is talking about and that 2.8 karat is something like 11%, 12%, that will kick in, have to kick in, otherwise they will go back. That is one point. The second is, it is not only the purity, it is the Tata Trust, 50 years from now I can come back to the store, the store will exist, I will get my money back whereas with other, we don't know whether the store will exist, we don't know whether the money will come back, so that part is not spoken about so much, but it is very much there with customers. Tanishq is a brand which is aspirational, desirous, all that may not be articulated by customers in the investing circles, but it is very much power of the brand.

Vivek Maheshwari: And the other part, I know this may not be the best forum, but if you can briefly elaborate how does this hallmarking work, so let us say whether it is Tanishq store or a neighborhood store, the gold physically actually goes out to a center comes back?

C. K. Venkataraman: Vivek, may be offline or something.

Ajoy Chawla: You can reach out to me offline Vivek, I will walk you through it, may be through Pulkit or somebody from our Investor Relations. We can talk about it.

Vivek Maheshwari: And last, a small bit on hallmarking, does this increase your cost in anyways in the medium term as it does for the industry or it is, let us say, cost wise it is fairly neutralish for you as well?

Ajoy Chawla: It is negligible.

Moderator: Thank you. I now hand the conference over to Mr. Venkat for his closing comments. Over to you, sir.

C. K. Venkataraman: Thank you very much everyone as always, supportive, encouraging, probing and leaving us with a good feeling at the end of it, so goodbye till we meet again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Titan Company Limited, that concludes this conference. Thank you all for joining and you may now disconnect your lines.